

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----- 031034

O 061750Z NOV 75
FM AMEMBASSY ALGIERS
TO SECSTATE WASHDC 3303

C O N F I D E N T I A L SECTION 1 OF 2 ALGIERS 3284

EXDIS

E.O. 11652: GDS
TAGS: ENRG, PFOR, AG, US
SUBJECT: CHEMICO WITHDRAWAL FROM LNG-1

REF: ALGIERS 2070

1. SUMMARY: TALKS ON CONTRACT DISPUTE BETWEEN CHEMICO AND DONATRACH RE CONSTRUCTION OF \$350 MILLION LNG PLANT WERE BROKEN OFF NOV. 6, AND SETTLEMENT OF DISPUTE NOW APPEARS VERY UNLIKELY. CHEMICO HAS ALREADY WITHDRAWN ITS PROJECT CONSTRUCTION MANAGER AND OTHER CHEMICO PERSONNEL WILL BEGIN TO LEAVE ALGERIA IN ABOUT ONE WEEK AS COMPANY SHUTS DOWN PROJECT. RUPTURE OF TALKS IS DISTINCT SETBACK FOR BOTH ALGERIAN DEVELOPMENT PROGRAM AND U.S. COMMERCIAL INTERESTS AND MAY RESULT IN REPRISALS AGAINST CHEMICO PERSONNEL IN ALGERIA. END SUMMARY.

2. JOHN NICHOLS AND EVERETT LOWE, VICE PRESIDENTS OF AEROJET GENERAL CALLED ON ME NOV. 6 TO REPORT THAT TALKS BETWEEN CHEMICO AND SONATRACH HAD BROKEN OFF IN MIDST OF ACrimonious EXCHANGES. AS BACKGROUND NICHOLS EXPLAINED THAT NO DIRECT TALKS HAD BEEN HELD BETWEEN TWO PARTIES SINCE EARLY SEPTEMBER ON CONTRACT DISPUTE REGARDING COST OVERRUNS AND DELAYS IN CONSTRUCTION OF ONG PLANT AT ARZEW. IN SEPT. AND OCT., HOWEVER, TWO SIDES HAD EXCHANGED LETTERS WHICH BECAME PROGRESSIVELY HARDER IN TONE. "DISINTEGRATION" OF RELATIONS
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BETWEEN TWO SIDES BECAME VERY EVIDENT DURING THIS PERIOD.

3. NICHOLS SAID CHEMICO BEGAN FACE TO FACE CONSULTATIONS WITH GHOZALI AND OTHER SONATRACH OFFICIALS ON OCT. 30. CHEMICO EXPECTED THAT THESE TALKS WOULD FOCUS ON RESULTS OF AUDIT DONE BY CONSULTING FIRM IN-O-VEN. DISCUSSIONS, HOWEVER, HAD FOCUSED ON PREVIOUS OFFER BY SONATRACH TO LOAN CHEMICO WHATEVER FUNDS WERE NECESSARY TO COMPLETE PROJECT, WITH PROVISIO THAT LOAN WOULD BE LIQUIDATED UPON SATISFACTORY COMPLETION OF LNG PLANT. (SEE REFTEL.) IN RETURN FOR AGREEMENT TO LOAN, SONATRACH INSISTED THAT CHEMICO PROVIDE SPECIFIC COST FIGURE FOR PLANT AND SPECIFIC COMPLETION DATE, SO THAT BASIC FORM OF CONTRACT WOULD BE PRESERVED. NICHOLS SAID CHEMICO UNWILLING OFFER PRICE AND COMPLETION DATE GUARANTEES AS THIS WOULD PUT COMPANY IN UNTENABLE POSITION.

4. TALKS WERE SUSPENDED ON OCT. 31 FOR REVIEW OF RESPECTIVE POSITIONS. NICHOLS WENT TO PARIS TO CONSULT WITH EL PASO OFFICIALS AND TO LONDON TO CONSULT WITH VOLLBRECHT, PRESIDENT AEROJET GENERAL. NOTHING CHANGED, HOWEVER. AT RESUMPTION OF TALKS ON NOV. 4, CHEMICO INFORMED SONATRACH THAT IT REGARDED ALGERIAN OFFER AS UNREASONABLE FINANCIAL RISK. SONATRACH RESPONDED WITH LETTER (DATED NOV. 3) NOTING THAT DESPITE FACT THAT SONATRACH HAD OFFERED ADDITIONAL FUNDS AND PROLONGATION OF CONTRACT, CHEMICO REFUSED TO GIVE GUARANTEES REGARDING COMPLETION DATE AND FINAL PRICE. IN VIEW OF THIS, LETTER NOTED, IF CHEMICO CONTINUED IN ITS FAILURE TO MEET TERMS OF CONTRACT AND HAD NOT SUPPLIED WRITTEN STATEMENT THAT IT WOULD IMPROVE PERFORMANCE TO CONFORM TO CONTRACT, SONATRACH WOULD AT END OF THIRTY DAYS CONSIDER CONTRACT BROKEN. CHEMICO THEN SAID THAT UNDER TERMS OF CONTRACT, CHEMICO OBLIGED TO STOP WORK ON ALL ITEMS IN DISPUTE, I.E., THE ENTIRE PLANT.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
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FM AMEMBASSY ALGIERS
TO SECSTATE WASHDC IMMEDIATE 3304

C O N F I D E N T I A L SECTION 2 OF 2 ALGIERS 3284

EXDIS

5. NICHOLS SAID THAT GHOZALI'S INITIAL REACTION TO THIS EXCHANGE HAD BEEN VERY EMOTIONAL. HE HAD ACCUSED CHEMICO OF BLACKMAIL AND WILLFULL INTENT TO BREAK CONTRACT. TALKS TERMINATED NOV. 6 IN ATMOSPHERE WHICH NICHOLS DESCRIBED AS ONE IN WHICH EACH SIDE CLEARLY HAD TRIED TO SEE THE OTHER WIN. #ASKED IF HE BELIEVED TOP LEVEL OF ALGERIAN GOVERNMENT SUPPORTED SONATRACH POSITION, NICHOLS SAID HE FELT TOP LEVEL HAD IN FACT PRESCRIBED THAT POSITION.

6. CHEMICO ITSELF, NICHOLS ADDED, HAD MADE NO DECLARATIONS SAYING IT HAD PASSED POINT OF NO RETURN. ON CONTRARY NICHOLS SAID HE HAD INDICATED TO SONATRACH THAT CHEMICO WILLING TO CONTINUE TALKING. GHOZALI HAD RESPONDED TO THIS THAT "BLAUMAILERS ARE ALWAYS WILLING TO TALK FURTHER."

7. NICHOLS SAID THAT CHEMICO WOULD NOW BEGIN CLOSING DOWN PROJECT. CONSTRUCTION MANAGER WAGONIERE HAD LEFT ALGERIA NOV. 6 BECAUSE CHEMICO FEARED REPRISALS MIGHT BE DIRECTED AT HIM PERSONALLY SINCE HE HAD DIRECTED PROJECT FOR PAST TWO AND HALF YEARS. CHEMICO WILL START NOV. 13-14 TO REMOVE NON-SUPERVISORY PERSONNEL. ALGERIAN WORK FORCE WOULD THEN BE DISCHARGED. NICHOLS NOTED THAT IT WOULD TAKE ONE MONTH TO COMPLETELY SHUT DOWN PROJECT. NUMEROUS ADMINISTRATIVE DETAILS HAD TO BE TAKEN AND CHEMICO OBVIOUSLY ANXIOUS NOT TO VIOLATE ALGERIAN LAW AS IT LEFT.
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8. LOWE SAID HE EXPECTED THAT WHEN THIRTY DAYS OVER (AS INDICATED IN SONATRACH'S NOV. 3 LETTER), AND CHEMICO HAD NOT RESPONDED WITH REQUESTED ASSURANCES, SONATRACH WOULD TAKE CASE TO ARBITRATION AT INTERNATIONAL CHAMBER IN SWITZERLAND. NICHOLS ADDED THAT NO ARRANGEMENTS HAD BEEN MADE FOR CHEMICO TO COOPERATE IN HANDING OVER PROJECT TO ANOTHER COMPANY. (NICHOLS SAID HE UNDERSTOOD SONATRACH HAD HAD TALKS WITH PROCON, BECHTEL, AND BELGIAN FIRM TRACTIONAL (PHON.) RE TAKING OVER WORK ON LNG GQ.) "COLD TURKEY" TRANSFER, AS NICHOLS PUT IT, CERTAIN TO COST ALGERIANS HEAVILY IN TERMS BOTH MONEY AND TIME.

9. I TOLD NICHOLS PRESENT DEVELOPMENTS EXTREMELY UNFORTUNATE AND DISTRESSING. IT CERTAINLY HAD APPEARED THAT EXIMBANK WOULD HAVE BEEN PREPARED UNDER RIGHT CONDITIONS TO FINANCE OVERRUN, A POINT WITH WHICH NICHOLS AGREED. REPERCUSSIONS FROM THESE PRESENT DEVELOPMENTS, I TOLD NICHOLS, WOULD BE FAR-REACHING. NICHOLS THEN RAISED POSSIBILITY THAT CURRENT ALGERIAN BITTERNESS WOULD TRANSLATE ITSELF INTO OPEN HOSTILITY AND HARASSMENT OF CHEMICO PERSONNEL. I NOTED THAT ALTHOUGH EMBASSY WOULD CERTAINLY DO ITS UTMOST TO ASSIST CHEMICO PERSONNEL WHO MIGHT HAVE DIFFICULTIES, OUR LEVERAGE LIKELY TO BE RATHER LIMITED IN THIS SITUATION.

10. COMMENT: MORAL JUDGMENTS ABOUT WHO BEARS THE RESPONSIBILITY FOR THE APPARENT TOTAL BREAKDOWN OF CHEMICO-SONATRACH CONTRACT ARE USELESS AT THIS POINT. FACT, HOWEVER, IS THAT PRESENT DEVELOPMENT IS LIKELY TO MAKE IT MUCH TOUGHER FOR AMERICAN FIRMS BOTH TO GET NEW CONTRACTS IN ALGERIA AND TO EXECUTE THE ONES THEY ALREADY HAVE. THIS DEVELOPMENT MAY ALSO CUT OTHER WAY AS WELL, I.E., IN DISCOURAGING US FIRMS FROM SEEKING TO PARTICIPATE IN ALGERIAN DEVELOPMENT PROJECTS. PARKER

NOTE BY OC/T: SECTION 2 OF 2 ALGIERS 3284; #PARA. 5. AS RECEIVED. CORRECTION TO FOLLOW. CONFIDENTIAL
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